Tomkins 2008 Pension Scheme

Statement of Investment Principles

September 2023

1. Introduction

1.1 The Trustee of the Tomkins 2008 Pension Scheme (“the Scheme”) has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern the Trustee’s decisions about the Scheme’s investments.

1.2 A separate document, the Investment Policy Implementation Document (“IPID”), sets out specific details of the investment policy.

1.3 When making investment decisions the Trustee consults the Statement as required to ensure that, where possible, the decisions they make are consistent with the Statement.

2. Governance of the Scheme

2.1 The Scheme is made up of the following two Sections:

- The Main Section.
- The Ruskin / FormFlo Section.

2.2 The Scheme is structured such that each Section is segregated from the other Section, with each Section having its own investment policy. Each of the Sections offers defined benefits (DB) to relevant members. However, some members of the Main Section receive defined contribution (DC) benefits. Parts 4 to 6 of the SIP cover the DB Sections of the Scheme and Part 7 covers the Pegler DC element of the Main Section. Parts 3 and 8 to 11 apply to all Sections.

3. Governance of the Scheme

3.1 The Scheme is governed by its Trust Deed and Rules which set out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement. The ultimate responsibility for deciding the Scheme’s investment policy lies solely with the Trustee.

3.2 The Scheme’s Principal Employer is Gates Worldwide Limited (formerly known as Tomkins Limited and also referred to in this document as “the Company”). Gates Worldwide Limited is the Participating Employer in respect of the Main Section. Gates Acquisitions Limited is the Participating Employer in respect of the Ruskin / FormFlo Section. In preparing this Statement the Trustee has consulted the Principal Employer on behalf of the Participating Employers.

3.3 In considering the appropriate investments for the Scheme, the Trustee obtains and considers the written advice of their investment consultant.

4. **Defined Benefits Objectives**

4.1 The Trustee's primary objective is to meet its obligations to the beneficiaries both in the short and long-term, by maximising the probability of the Scheme paying accrued benefits as they become due using the funding assumptions under the ongoing funding basis applying to the Scheme.

4.2 If there is a shortfall revealed by an actuarial valuation, the Trustee will agree with the Company the additional contributions projected to eliminate the shortfall over an appropriate period.

4.3 The Trustee has the following specific objectives for how this primary objective is to be met.

- To have regard to the likelihood of the Scheme's insolvency.
- To have regard to the Statutory Funding Objective following the most recent actuarial valuation.
- To have regard to the factors which might contribute to the Company contribution rate rising.
- To have regard to the Company's investment preferences.
- To consider and implement as appropriate any revised controls deemed necessary in accordance with the Scheme's risk register.
- To have regard to the extent to which the asset allocation policy in place results in an appropriately diversified portfolio.

4.4 The Trustee purchased bulk annuity policies with Pension Insurance Corporation ("PIC") in November 2022 to ensure that all DB member benefits are paid in full by a regulated insurance company. The buy-in policies were purchased to meet the Trustee's primary objective – to maximise the probability of the Scheme being able to pay accrued benefits as they fall due.

4.5 The buy-in policies are expected to secure all the remaining outstanding DB benefit obligations of the Scheme.

4.6 Additional payments or expenses will be met from cash balances and/or payments from the Sponsor until the Scheme is wound up. For the Main Section, the Trustee intends to invest a proportion of the surplus cash assets in gilts to broadly hedge the value of Guaranteed Minimum Pension ("GMP") equalisation benefits (see paragraph 4.8).

Risk

4.7 Any investment risk resulting from the mismatch between the Scheme's assets and liabilities has been largely hedged following the purchase of bulk annuity contracts with PIC.

4.8 The Trustee is aware that following the buy-in transaction, an exercise is being carried out to understand the value of any Guaranteed Minimum Pensions ("GMP") equalisation benefits. The Trustee will look to broadly hedge (to the extent possible) the duration and inflation sensitivity of these benefits by investing a proportion of the Main Section assets in gilts.

4.9 The Trustee has taken steps to reduce risk over time by removing the allocation to equities and securing a buy in policy for the pensioner members during 2014 In 2015, the Trustee reviewed the investment strategy further in order to better align the remaining assets (gilts and corporate bonds) to the characteristics of the liabilities not associated with the buy in. Following discussions with the Company, a further review of the investment strategy was undertaken in 2018, and in 2019 the allocation to the corporate bond assets was increased, and allocations to secured finance and leveraged liability driven investments introduced. This was agreed on the basis that it would better align the Scheme's investment strategy with how an insurer might invest the assets. The allocation to secured finance was subsequently terminated in October 2021 and January 2022. In November 2022, to fully de-risk the Scheme's investment strategy (to the extent possible) the Trustee entered into buy-in transactions for the Main and Ruskin / FormFlo Sections, securing the remaining DB benefits for these Sections. Bulk annuity policies were purchased with Pension Insurance Corporation ("PIC").

4.10 The bulk annuity contracts represent a concentration of risk that the provider does not make the required payments. As the policies are governed by insurance market solvency regulations, the Trustee believe this risk is low and have mitigated it by careful choice of provider and contract terms.

4.11 Before deciding on the level of investment risk relative to the liabilities, the Trustee receives advice from the Investment Consultant and Scheme Actuary, and holds discussions with the Company. In particular, the Trustee carefully considers the following risks to be financially material over the expected lifetime of the Scheme:

- Although the expected return on the bulk annuities has not been determined, the change in the value of these contracts is expected to follow the change in value of the Scheme's liabilities. The Trustee will seek to broadly hedge the GMP equalisation benefits by investing in gilts.

- Changes in long term interest rates and inflation expectations have a significant impact on the value placed on the liabilities. The investment strategy has largely mitigated this *mismatching risk* by purchasing bulk annuity contracts which possess the same characteristics as the liabilities (such as duration and sensitivity to inflation). The Trustee intends to broadly hedge the mismatching risk arising from the GMP equalisation benefits by investing in suitable gilts.

4.12 The degree of investment risk the Trustee is willing to take also depends on the financial health of the Scheme and its liability profile. The Trustee will monitor these with a view to reviewing the investment objectives and risk tolerance should there be a significant change in either. The only outstanding investment risk that is not fully 'matched' relates to the GMP equalisation benefits, although the Trustee will seek to hedge this risk (to the extent possible) by investing in suitable gilts. Once the value and characteristics of the GMP equalisation benefits are understood, the Trustee will seek to incorporate these benefits into the bulk annuity contracts, convert the buy-in into a buy-out contract, and wind-up the Scheme.

4.13 The documents governing the investment managers' appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes outside their mandates without the Trustee's prior consent. These guidelines also set out restrictions to manage *counterparty risks* which arise from dealing with counterparties that may be unable to pay amounts due to the Scheme as they fall due.

4.14 Arrangements are in place to monitor the Scheme's investments to confirm to the Trustee that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee receives quarterly reports from the investment managers.

4.15 *Custodian risk* is the risk that a custodian misplaces Scheme investments that it is receiving, dealing or safe keeping. The safe custody of the Scheme's assets is delegated to professional custodians via the use of pooled vehicles.

4.16 The Trustee recognises that there is *liquidity risk* in holding assets that are not readily marketable and realisable. Although bulk annuities are illiquid investments and cannot be traded on regulated markets, the Trustee is satisfied this is appropriate given the security they provide by paying members' benefits as they fall due. The remaining Scheme assets are invested in cash and investment grade money market instruments that are realisable on a weekly basis in normal market conditions. The Trustee also intends to invest in gilts to broadly hedge GMP equalisation benefits. The gilt funds the Trustee intends to invest in are realisable on a weekly basis in normal market conditions.

4.17 *Environmental, social and governance ("ESG") risk*, including climate change, may significantly affect the investment returns and risk of certain asset classes. The Trustee's policy on ESG risks are set out in Part 8.

5. Defined Benefit Asset Allocation Strategy

5.1 The Trustee regards the choice of asset allocation policy as the decision which has the most influence on the likelihood that they will achieve the primary objective The Trustee has direct responsibility for this decision which is made on the advice of their investment consultant and in consultation with the Company.

5.2 The Trustee has adopted strategic asset allocation policies for each Section of the DB Scheme. These are laid out in the IPID.

Investment of Additional Voluntary Contributions (AVCs)

5.3 The AVC arrangements are outlined in the IPID.

6. Defined Benefit Investment Management Structure

6.1 For the residual assets following the buy-in transactions, the Trustee has delegated certain investment decisions to an external investment manager. The manager and the details of their mandates and performance targets are listed in the IPID.

6.2 The Trustee has signed and dated appointment documentation with each of the managers which sets out the terms and conditions by and under which the respective portfolios will be managed and reported.

6.3 The Trustee has signed and dated bulk annuity contracts with the insurer which sets out the terms and conditions by and under which the buy-in policies will be managed and reported.

6.3 PIC have been appointed with the aim of insuring the Scheme's liabilities and reducing the Scheme's funding volatility. The Trustee sought expert advice in relation to this appointment. This included an assessment of PIC's capabilities, knowledge and experience. The bulk annuity policies are managed in line with the Scheme's specific liabilities and investment requirements. Therefore, the policies are aligned with the Trustee's objectives and the terms of the policies incentivise PIC to meet the

Trustee's objectives. The Trustee understand that they have no ability to determine or influence the assets in which PIC invests. The Trustee recognise that the annuity investments are illiquid and cannot be traded.

7. Main Section Defined Contribution Assets

Investment Objectives

7.1 For those members of the Main Section who receive DC benefits, the Trustee's primary objective is to make available a range of investment funds which serve to meet the varying investment objectives and risk tolerances of the members.

Risk

7.2 The Trustee recognises that there are a number of risks facing members who receive DC benefits and have taken these into consideration when determining the range of funds to offer to members. The fund range aims to offer members sufficient choice across the risk/return spectrum to allow them to manage the risks they face.

7.3 The main risks faced by members that the Trustee considers to be financially material and how the Trustee helps members to address them are shown below. The Trustee views these risks as applicable to the default option and the self-select options.

- Capital risk – This refers to the risk of a fall in value of the members' funds. The Trustee provides investment options that offer different level of capital protection, for example the Deposit Fund. The default lifestyle strategies also include an element of de-risking in the approach to retirement.

- Inflation risk - This refers to the risk of investment returns not keeping pace with inflation. The Trustee offers equity based investments which are expected to achieve a real rate of return over both price inflation and earnings growth in the long term. In addition, the Trustee offers an index-linked gilt fund, in which income received from underlying bonds is explicitly linked to inflation.

- Pre-retirement downturn risk - This refers to the risk of significant downward volatility in the amount of benefit a member's accrued investments can purchase in the period running up to retirement. To help address this risk the Trustee offers lifestyle investment options which invest in assets expected to offer a real return over earnings growth in the long term but progressively switch into less volatile bonds and cash in the lead up to retirement.

- Shortfall risk – This refers to the risk that members end up with insufficient funds at retirement with which to receive reasonable retirement benefits. The Trustee offers a range of funds, including a global equity fund that is expected offer long term growth over inflation, which is also included within the growth phase of the lifestyle arrangement. Members are able to set their own investment strategy in line with their aims and risk tolerances.

- Liquidity risk - This refers to the risk of members not being able to realise their investments. To address this risk the Trustee offers members investments in unitised pooled funds which are dealt daily.

- Custody - The custody of the DC Section's assets is delegated to professional custodians (via the use of pooled vehicles).

- Environmental, social and governance risk, including climate change, may significantly affect the investment returns and risk of certain asset classes. The Trustee's policy on ESG risks are set out in Part 8.

- Suitability – The Trustee has taken advice from the investment consultant to ensure that the underlying investments are suitable as investments for the Scheme.

7.4 The Trustee recognises the majority of members are likely to be invested in the respective default options and are focused on providing appropriate default options. There are specific risks, which may include the above, attached to the default. The Trustee's policies on risk and appropriateness for the default options are provided in a separate statement.

7.5 The Trustee believes that the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and their retirement age

8. Responsible Investment and Corporate Governance

8.1 The Trustee believes that stewardship and ESG issues, including climate change, may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

8.2 The DB assets are invested in bulk annuity contracts and in pooled funds, whilst DC assets are managed in pooled funds; as such the Trustee accepts that the assets are subject to the investment manager's own policies when evaluating ESG issues, including climate change, and in exercising rights and stewardship obligations attached to the Scheme's investments.

8.3 As the majority of the Scheme's DB assets are invested in bulk annuity contracts, the Trustee is reliant on the insurers' policies on responsible investment and corporate governance and will review these from time to time as appropriate. The Trustee have implicitly delegated consideration of ESG issues, engagement and stewardship obligations to the providers of the Scheme's buy-in policies. As a result, the Trustee believe they have minimal direct exposure to risks arising from long-term sustainability issues, including climate change.

8.3 Similarly, the Trustee accepts that the Scheme's voting rights are exercised by the investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance Code and UK Stewardship Code. The Trustee reviews the managers' ESG and stewardship policies from time to time.

8.4 Equity managers who are authorised in the UK are expected to report to their adherence to the UK Stewardship Code on an annual basis.

8.5 The DB Section of the Scheme invests solely in bulk annuity contracts, cash and money market instruments, whilst an index-linked gilt and cash deposit fund are made available through the DC Section. Whilst ESG issues are still relevant to risk control, there is less opportunity to influence investee company behaviour compared to equity holdings, although where relevant, managers are encouraged to use their position as lenders of capital to engage with companies.

8.6 The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. The Trustee will consider the ESG ratings provided by their investment consultant and how each investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the fund will be removed or replaced automatically. The Trustee will also consider ESG integration, climate change and stewardship when implementing future investment strategy decisions.

8.7 The Trustee does not take into account DB or DC Section members' or beneficiaries' views on "non-financial matters" (such as their ethical views) in the selection, retention or realisation of investments but specific requests from the DC members are taken into account on an ad-hoc basis.

9. Investment Manager Arrangements

9.1 *Aligning Manager Appointments with Investment Strategy*

The investment managers are appointed by the Trustee based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics. The Trustee utilises forward-looking manager research ratings provided by their investment consultant in decisions around the selection, retention and realisation of manager appointments. These ratings are based on the investment consultant's assessment of the manager's idea generation, portfolio construction, implementation and business management.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure that it remains appropriate and consistent with the Trustee's investment objectives.

Some mandates are actively managed and the managers are incentivised through performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds as part of the wider monitoring of the Scheme's managers.

The Scheme's investments are made through pooled investment vehicles, and as such the Trustee accepts that it has no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustee is dissatisfied, then they will consider replacing the manager.

An investment manager's appointment may also be terminated if the Trustee's strategic investment objectives change.

PIC were appointed in November 2022 with the aim of insuring the Scheme's liabilities and reducing the Scheme's funding volatility. The Trustee sought expert advice in relation to this appointment. This included an assessment of PIC's capabilities, knowledge and experience. The bulk annuity policies are managed in line with the Scheme's specific liabilities and investment requirements. Therefore, the policies are aligned with the Trustee's objectives and the terms of the policies incentivise PIC to meet the Trustee's objectives.

The Trustee understand that they have no ability to determine or influence the assets in which PIC invests. The Trustee recognise that the annuity investments are illiquid and cannot be traded.

9.2 *Evaluating Investment Manager Performance*

The Trustee receives investment manager performance reports from the managers on a quarterly basis, which present performance information over various time periods. The Trustee reviews absolute and relative performance against a suitable index used as a benchmark (where relevant), and/or against the manager's stated performance target (over the relevant time period). The Trustee may also evaluate a manager's performance using risk metrics. The Trustee's focus is primarily on long term performance but short term performance is also reviewed. As noted above, the Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may initially ask the manager to review their fees instead of terminating the appointment.

9.3 *Portfolio Turnover Costs*

The Trustee does not currently actively monitor the portfolio turnover costs within the DB Section. Investment manager performance is generally reported net of transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee receives some reporting in relation to the ongoing costs and charges from their investment managers, in line with regulatory requirements, but do not currently analyse the information. The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustee may ask managers to report on portfolio turnover costs explicitly. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund, or where relevant, relative to the manager's specific portfolio turnover range in the investment guidelines or prospectus.

The obligation of the insurer to make payments is not impacted by on-going turnover costs.

The Trustee monitors portfolio trading costs and turnover costs for the DC and AVC arrangements on an annual basis as part of its annual value for members assessment.

9.4 *Manager Turnover*

Following the buy-in transactions, the Scheme's residual assets are invested in cash / money market instruments to cover expenses, and the Trustee intends to invest a proportion of these assets in gilts to broadly hedge the GMP equalisation benefits. The Trustee is therefore not looking to change the investment arrangements.

For open-ended funds, the Trustee will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager.

- The manager appointment has been reviewed and the Trustee is no longer comfortable that the manager can deliver the mandate.

10. Investment Manager, Insurer and Advisor Fees

10.1 External investment manager fees are determined as a percentage of assets. In the DC Section, the charges for investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustee annually to ensure that they represent "value for money" relative to the needs of the membership. Similar applies for the assets invested in relation to AVCs

10.3 The insurer does not receive on-going remuneration from the Scheme. The premium paid for the annuity policies covers the insurer's implicit fees with the Trustee's choice of insurer taking the size of the premium into account. The Trustee is satisfied that this is the most appropriate basis for remunerating the insurer.

10.2 Investment consulting fees are based on the time spent. In addition, the investment consultant and the Trustee generally agree fees in advance for more substantial projects.

11. Review of this Statement

11.1 The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Signed: Christopher Clayton

Date: 19 September 2023